



CITY COUNCIL AGENDA REPORT

MEETING DATE: JUNE 21, 2011

ITEM NUMBER: _____

SUBJECT: CEO RECOMMENDED ADOPTED BUDGET

DATE: JUNE 17, 2011

FROM: OFFICE OF THE CEO

PRESENTATION BY: THOMAS R. HATCH, CHIEF EXECUTIVE OFFICER

FOR FURTHER INFORMATION CONTACT: THOMAS R. HATCH, (714) 754-5328

RECOMMENDATION:

Adopt attached Resolution No. 11-xx approving the Fiscal Year 2011-2012 Operating Capital Improvement Budget.

BACKGROUND:

Throughout the last several months the City Council has held many informative budget sessions. It is our understanding that these sessions have been helpful to many of our different stakeholders. The sessions have included more detail and produced a clearer working knowledge of important aspects of the City's liabilities, assets and long-term financial health. We better understand our financial challenges and we can use this knowledge to better develop strategies to proactively tackle our problems with specific solutions. The sessions also served to further open lines of communication by providing many opportunities for the community to ask questions and receive answers. Given the serious issues, it is healthy for all of us to hold ourselves and each other even more accountable for our financial future.

This staff report is to serve as the culminating document to help wrap-up the budget development process for this year. Although, the budget development process will be concluding, the approach staff is planning to take is to continually keep the budget in our every day thoughts. Staff will work day-in and day-out to continually improve our financial situation while ensuring that we continue to provide the best service possible to the community. We will use every opportunity to foster creativity and innovation in service delivery and strive for greater efficiency, but it should be noted by all that this budget includes reductions in service levels and this reduced service level will impact the community. Staff will do all it can to reduce the impact of these service level reductions.

Attached to this report are the first budget memo dated May 31, 2011 (Attachment 1) and the last budget staff report dated June 10, 2011 (Attachment 2). These two attachments outline the key budget information that is under consideration by the City Council along with the entire FY 2011-2012 Preliminary Budget. Many other documents

and materials have been provided throughout the process and they are available on-line on the City's website.

Staff is also introducing a new tool this year - the Five-Year Projections and Capital Reinvestment Strategy. This will be introduced on June 21, 2011 but a full discussion of how the City will effectively use the tool and how to create/adjust the assumptions that will guide us will be reviewed at the July 12, 2011 City Council Study Session. A copy of the draft Five-Year Projections will be handed out and presented at the June 21, 2011 City Council meeting.

In addition, at the July 12, 2011 City Council Study Session, the budget/financial discussions will continue. We will review several important financial related issues including:

- Begin the discussion about adjusting the Five-Year Projections and Capital Reinvestment Strategy to best fit our long-term needs;
- Begin the discussion about the proposed financial and budget policies. These policies will annually help guide staff with the development of the annual budget; and
- Introduce the City's General Fund Cash Flow Model and discuss how this tool can help us.

Every other month at a Study Session, staff will provide an update on key budget/financial issues to ensure that they continue to be our top priority.

ANALYSIS:

At the Budget Study Session of June 14, 2011, staff outlined the final recommended changes to the budget and presented a balanced budget. This achievement was the result of solid work from many staff from all departments and incorporated many of the expectations that had been expressed by the City Council and community. Staff would like to thank the City Council, Commissions, fellow staff and community members for their many suggestions and leadership with this difficult process.

The following City Council comments and requests from the last Study Session will be reviewed further or incorporated in the budget as well:

- Create a Performance Auditor position – Staff suggests that this issue be reviewed in detail and an approach be developed for review by the City Council at the City Council Study Session in August.
- Increase contract budget for Helicopter Support Services from \$150,000 to \$300,000 – In addition to this General Fund funding of \$150,000, the budget includes a full year of the ABLE Commander position. It is unlikely that it will take the entire fiscal year to dissolve the Program and when the Commander position gets folded back into the Police Department staff, significant savings will occur. This savings could be used to increase the number of contract helicopter service hours. In addition, staff suggests that at the end of the first quarter of the next fiscal year, a report be developed and presented to the City Council to review the progress of the change from the ABLE program to the contract with the City of

Huntington Beach. At that time, any recommended budget or operational changes could be made to plan for the long-term success of the new partnership.

- Move the K-9 Unit into the regular patrol operations for the Police Department – While this was recommended in the Management Partners report, the CEO will direct the new Police Chief to review the personnel deployment of the Department, and specifically the K-9 Unit, to determine the level of calls for service and how best to deploy the Unit.
- Increase the coverage for schools for School Resource Officers (SRO) – The City will continue with sworn officers as SRO's in the two high schools. Staff will work with the Interim Police Chief and Police Officers Association to request through the meet and confer process that the two SRO positions change their work schedules from 4 days/10 hours per day to 5 days/8 hours per day to allow for five day a-week coverage at both high schools. In addition, staff will have the Police Department review how personnel can be deployed to further support the high schools and middle schools in the community. One alternative is to recruit an experienced reserve officer(s) to serve as a part-time SRO and increase coverage at our schools. Staff will work through the details on this issue.
- A question was asked about the number of arrests that are made on campus each year – This information is listed below:

School Resource Officers Activity	Total 2009	Total 2010	Through May 30, 2011
Law Enforcement Presentations	68	90	63
School Related Criminal Investigations	358	367	286
Meetings	263	290	242
Students Counseled	1139	1186	719
Arrests	43	38	15

- Explore and implement a system to provide a time clock system – This request is being researched and a report will be brought back to the City Council for review in the next two months.
- Explore and implement a system to track City vehicles through a GPS system - This request is being researched and a report will be brought back to the City Council for review in the next two months.
- A request was made for a list of City vehicles – It is clear that more discussion needs to occur concerning the Equipment Replacement Fund. It is suggested that this discussion be postponed from this hearing tonight until either the July or August Study Session of the City Council. Staff will provide the list shortly.
- More detail on Economic Development Consultant – In the short time period from the June 14th Study Session and the writing of this report, staff was unable to complete a report on this item. It is recommended that either the City Council approve the budget with the \$100,000 cost for this consultant as a place holder with the understanding that staff will bring back a report on this issue or that the City Council remove this item from the budget until a report is developed.

- Sales tax forecast data relative to prior history – Staff is developing this analysis and it will be presented to City Council shortly.
- A question was asked about what other cities have budget contingency accounts and what percentage of their budget do they use – Staff is developing this analysis and it will be presented to City Council shortly.

It is recommended that the City Council adopt the recommended budget as presented on June 14, 2011.

ALTERNATIVES:

At the Budget Study Session of June 14, 2011, Mayor Pro Tem Rigeimer suggested several changes to the budget. The following are the suggested changes and a recommended action:

- Reduce the revenue estimate for Sales Tax by \$400,000 - Staff reviewed the projections carefully and believes that the initial recommendation is still conservative and appropriate given the indicators and information available. The approach staff is using on all revenue projections is to try to be conservative but not ultra-conservative. Although, it is acknowledged that projections are simply our best educated estimates and that sales tax revenue can vary significantly from year to year.
- Add \$1.5 million back into the budget for charges to Departments for the Equipment Replacement Fund - Staff had recommended the reduction of \$1.9 million from the charges as part of the budget solution. In addition, staff is looking to significantly reduce the City's fleet to both reduce on maintenance time and costs as well as future replacement costs. The sales proceeds from unneeded vehicles will be placed back into the Fund to support future costs of the Fund. More analysis is needed, but staff still believes that this Fund can be restructured to fundamentally reduce costs for the General Fund in the future. In future years and as part of the Five Year Projections, staff is planning to annually budget charges for equipment replacement at \$1,000,000 for the General Fund.
- Increase the budget contingency amount from \$50,000 to 1% of the budget or approximately \$970,000 - Staff agrees that the City should have a budget contingency. A 1% rate seems reasonable, but some time may be needed to build up to that expected contingency level.

If the City Council chooses to amend the proposed budget to include the three changes above (value of \$2,820,000), then staff recommends the following:

1. Reduce the final proposed budget for legal services from \$1,003,000 to \$803,000 or a reduction of \$200,000;
2. Reduce the budget for a Business License Tax consultant from \$40,000 to \$20,000;

3. Reduce the budget for a Economic Development Consultant from \$100,000 to \$50,000;
4. Authorize the budgeting of anticipated salary savings. With 29 positions currently vacant and an annual total compensation value of those positions of \$4,264,000, the CEO will actively manage the vacancies to ensure that salary savings is generated in the amount of over \$1,050,000; and
5. Authorize the budgeting of anticipated savings from either of the following or a combination of the following: eliminating vacant positions, restructuring the organization as new vacancies occur or any savings generated from outsourcing one or more City service areas. A report will be presented to the City Council at mid-year that demonstrates savings to the budget of \$1,500,000.

The savings from the five recommendations above total \$2,820,000 and would allow the City Council to implement the changes suggested by Mayor Pro Tem Rigeimer.

FISCAL ANALYSIS:

As proposed by the City CEO, the City's fiscal year 2011-2012 Budget is approximately \$114.9 million. As shown in the table below, the proposed General Fund budget is balanced at approximately \$95.1 million and also provides \$63,727 surplus to replenish the General Fund Reserve (Fund Balance).

The following table illustrates the total estimated revenue, total appropriations, and total fund balances used for all funds.

<u>Description</u>	<u>General Fund</u>	<u>All Other Funds</u>	<u>Total</u>
Estimated Revenue	\$95,127,204	\$16,786,020	\$111,913,224
Transfers In	-	100,000	100,000
Use of Fund Balances	(63,727)	2,947,568	2,883,841
Total Resources	<u>\$95,063,477</u>	<u>\$19,833,588</u>	<u>\$114,897,065</u>
Proposed Operating Budget	94,963,477	9,384,466	104,347,943
Proposed Capital Budget	-	10,449,122	10,449,122
Transfers Out	100,000	-	100,000
Total Appropriations	<u>\$95,063,477</u>	<u>\$19,833,588</u>	<u>\$114,897,065</u>

CONCLUSION:

It is recommended that the City Council adopt the FY 2011-2012 Budget.



Thomas R. Hatch
Chief Executive Officer

Attachments	1	Budget Memo Dated May 31, 2011
	2	City Council Study Session Report – June 10, 2011
	3	Resolution Adopting a Budget for FY 2011-2012

**CITY OF COSTA MESA
CEO'S OFFICE
MEMORANDUM**

TO: CITY COUNCIL, CITY STAFF & COMMUNITY MEMBERS
FROM: THOMAS R. HATCH, CHIEF EXECUTIVE OFFICER
DATE: MAY 31, 2011
SUBJECT: CEO RECOMMENDED CHANGES TO THE FY 11-12 PRELIMINARY BUDGET

The preliminary budget for FY 2011-2012 includes the entire budget allocations including the changes already made during the departmental budget hearings with the CEO. These changes that occurred at staff level budget hearings included expenditure and revenue changes reducing the overall budget shortfall from approximately \$5 million down to approximately \$3.3 million (\$1.7 million in changes). Again, all of these changes are already included in the budget detail presented in the preliminary budget. The details of the \$1.7 million in changes are attached to this report as Attachment A.

Reductions of \$3.3 million are needed to develop a recommended balanced budget for FY 2011-2012. Below is a listing of key budget changes that represent additional changes of approximately \$2.4 million in savings that further help balance the budget. With the changes presented below, the CEO's recommended budget still is approximately \$900,000 short of a balanced budget. In the next few weeks the CEO will make additional recommendations that will reduce the \$900,000 gap down to a balanced budget. These final recommendations will be even more difficult and will involve reductions to staffing levels and departmental reorganization.

Below are additional budget recommendations totaling \$2.4 million in savings:

Reduce amount charged to the General Fund for Internal Rent – Replacement Charges - \$1.9 million.

To be prepared for future replacement of current vehicles and equipment, the City established an Internal Service Fund called the Equipment Replacement Fund (ERF). This fund was established even earlier than 1990. By doing so, it allowed the City over the years to allocate money separate from the General Fund for vehicle and equipment purchases. The City currently has a total of 314 vehicles and equipment it tracks in the ERF.

Money is moved to the ERF by way of annual "Internal Rent" charges to funds that use the vehicles and equipment, most notably the General Fund. This fund has two components: Internal Rent – Maintenance Charges for fleet maintenance staff, fuel, tires, etc. and Internal Rent – Replacement Costs for the replacement of vehicles and equipment. This money is held as fund balance and each year staff assesses the need to replace any vehicle or equipment and makes recommendations to the City CEO during the budget process. Keeping in mind the needs of the City, the CEO determines the vehicles to replace as part of the annual budget.

In light of the budget crisis for FY 2010-2011, the City did not charge any amount to the General Fund for the Maintenance Charges or Replacement Costs. Because no charges were included, the fund balance was originally projected to decrease from \$7.3 million to \$5.2 million. For FY 2011-2012, staff has included the full costs for Maintenance Charges of approximately \$1.8 million. For FY 2011-2012, there are no vehicles proposed to be replaced. Therefore, the City will not have a need to utilize money already set aside. However, included in the Preliminary FY 2011-2012 Budget is \$2.1 million in Internal Rent – Replacement Charges. It is estimated that at the end of FY 2010-2011, the fund balance for the ERF will be approximately \$5.4 million. The overall replacement value of the City's entire fleet (calculated based on original purchase price plus a standard inflationary factor) is approximately \$15.0 million.

Further analysis of the replacement value amount shows that approximately \$7.5 million of the \$15.0 million is accounted for in the City's top 25 vehicles. These vehicles include 11 Fire Engines/Apparatus, 3 Street Sweepers, 2 Regenerative Air Sweepers, Vactor Cleaner, PD Mobile Command vehicle, equipment for paving, equipment for striping, asphalt patch vehicle, water vehicle, Tractor/Loader Backhoe, and 2 miscellaneous large vehicles.

Of these 25 vehicles, most (20) have a standardized useful life of 15 years for depreciation purposes, except the 5 Sweepers which have an 8-year useful life. Of the 15-year useful life vehicles, 10 were put into service prior to FY 2000-2001 (5 are Fire Engines/Apparatus), therefore 10 vehicles have been put into service more recently. Of the 5 Sweepers with an 8-year useful life, the City put all into service prior to FY 2004-2005.

Based on staff's review of available fund balance and review of the expected needs to replace vehicles, the CEO recommends reducing the Internal Rent – Replacement Charges for FY 2011-2012 by \$1.9 million. Reducing to this amount and fully charging for the Internal Rent - Maintenance Charges will still ensure no use of ERF fund balance in FY 2011-2012.

It is clear that this fund must have continued revenue in the form of Internal Rent moving forward. The CEO will need to recommend a budget amount of at least \$1,000,000 each year (starting FY 2012-2013) for the replacement of vehicles in addition to the amount budgeted for the maintenance of vehicles. In addition, the CEO has directed the Public Services Director to conduct a thorough review of the total number of City vehicles with the goal of reducing the number of vehicles by approximately ten (10%) percent. Over the last few years, the number of employees has been reduced and there are opportunities to reduce the number of vehicles as well. Reducing the number of vehicles will reduce the amount of funding needed for the replacement of vehicles as well as reduce the staff time and expense related to maintaining these vehicles.

Reduce amount allocated for a General Plan Update - \$200,000.

Per the request of the City Council, staff included an allocation of \$500,000 in the preliminary budget for a City General Plan update. Based on communication with Development Services staff, a General Plan update may still be completed with a \$300,000 allocation. Therefore, the CEO recommends reducing the Development Services budget by \$200,000. If approved, a Request For Proposal (RFP) will be developed and distributed. It is likely that this process will take many months and this competitive bidding process will ultimately determine the costs for this update. Even when a consultant has been selected and agreements executed, the work for this type of planning process will take many months to complete allowing additional funding to be included in the FY 2012-2013 budget if needed.

Reduce Information Technology budget for Computer Aided Dispatch (CAD) server - \$283,000.

As requested by the Information Technology Division, the preliminary budget includes an allocation of \$307,880 for the replacement of the City's CAD server (computer) using General Fund dollars. The current equipment and technical support have reached a point that the server needs to be replaced this year. Based on staff's review of CAD incidents, it appears 92% of all incidents are Police related. Therefore, the CEO recommends utilizing Narcotic Asset Forfeiture money to fund 92% of the CAD equipment. Planning for the replacement of the CAD server will continue but no purchase will be completed until a decision is made concerning the RFP process for the emergency dispatch service area.

Reduce Recreation budget for reduction in Aquatics programming - \$39,305 & reduce revenue of approximately \$10,000.

As part of the FY 2010-2011 budget deliberations, closing the City pool during the months of October through March was proposed to reduce costs. During the winter months, the pool's activity decreases significantly while the City still incurs costs associated with heating the pool and staffing to ensure safety. Therefore, the CEO recommends closing the City's pool at the Downtown Recreation Center for the months of October through March for a net cost savings of \$29,305. The key impact of this action will be the reduction of 420 lap swim hours and 90 swim lesson hours. This will require changing a full-time Recreation Specialist position to part-time and the reduction of other part-time staff hours.

Total CEO Recommended Changes = \$2.4 million.

Thomas R. Hatch
City Chief Executive Officer

City of Costa Mesa
Budget Changes from Initial Requests to Preliminary Budget - General Fund Only

Department/Division/Account	Individual Amount	Total Amount
<u>City CEO's Office</u>		
Remove requested position, Legislative & Public Affairs Manager, which was left vacant in 2010-2011 and originally proposed for 2011-2012		(182,423)
<u>City Clerk's Office</u>		
Increase part-time hours for additional workload assistance		13,837
<u>City Attorney's Office</u>		
Increase legal consulting budget per expected workload in 2011-2012	50,000	
Increase legal fees per expected workload in 2011-2012	50,000	
		100,000
<u>Finance Department</u>		
Increase for Finance Director position that was vacated and unfunded in 2011-2012 budget	193,834	
Estimated increase cost for the city's annual independent financial audit after City sends out new Request for Proposal to accounting firms.	10,000	
Increase cost incurred by shifting work involving annual independent financial audit preparation from staff to auditors	10,000	
		213,834
<u>Administrative Services Department</u>		
<u>Human Resources Division</u>		
Estimated increase cost for consultant services for human resource functions		100,000
<u>Recreation Division</u>		
Decrease in rent at Balearic facility as school district waives cost for 2011-2012 fiscal year		(71,000)
<u>Telecommunications Division</u>		
Increase part-time hours to eliminate much of the department's projected overtime	182,219	
Decrease overtime hours	(203,914)	
Eliminate laptop computer request	(5,800)	
		(27,495)
<u>IT Division</u>		
Increase in cost quote from vendor for computer-aided dispatch server		48,752
<u>Police Department</u>		
Decrease salary and benefit accounts for ABLE reduction - 3 helicopter pilots	(432,620)	
Shift five police officer positions from general fund to Prop 172 Fund, which has increased due to rising sales tax revenues.	(739,761)	
Eliminate two vacant positions that were left vacate in the 2010-11 fiscal year.	(262,025)	
		(1,434,406)

<u>Department/Division/Account</u>	<u>Individual Amount</u>	<u>Total Amount</u>
<u>Fire Department</u>		
Decrease in originally proposed overtime	(170,436)	
Decrease professional development costs to prior year actuals	(33,987)	
Decrease uniforms and clothing costs to prior year actuals	(45,802)	
Decrease safety and health costs to prior year actuals	(25,575)	
Decrease automotive equipment costs to prior year actuals	(39,998)	
Increase consulting costs for additional fire plan-checking assistance	75,000	
		<u>(240,798)</u>
<u>Development Services Department</u>		
Decrease part-time intern hours	(13,796)	
Eliminate the previously vacated Sr Plumbing/Mechanical Inspector position	(96,578)	
Eliminate the previously vacated Plan Checker position	(100,184)	
Decrease Engineering and Architectural costs per staff review	(37,000)	
Reduce the number of requested field laptops by 4.	(10,000)	
		<u>(257,558)</u>
<u>Public Services Department</u>		
<u>Engineering Division</u>		
Decrease Legal Advertising/Filing Fees due to change in County cost		<u>(35,662)</u>
<u>Maintenance Services Division</u>		
Increased part-time hours related to ballfield preparation	50,366	
Increase accounts residential street paving program allowing for 5 additional streets (from 10 to 15 streets)	130,000	
Increase in sidewalk grinding to make streets safer and City less vulnerable to trip-and-fall lawsuits	40,000	
Decrease in waste disposal costs after staff review	(14,000)	
Increased Landscaping and Sprinklers account for tree trimming costs returning to every 3-5 years (instead of 5-7 years)	40,000	
Eliminate request for new radios	(14,400)	
Decrease original \$770,000 sought for building maintenance to most essential repairs	(602,300)	
Increase maintenance of sports fields and parks	109,000	
		<u>(261,334)</u>
<u>Various Departments & Programs</u>		
Increase internal charges for equipment maintenance and replacement due to initial error.		716,580
<u>Non-Departmental</u>		
Increase general fund transfer to Supplemental Law Enforcement Fund due to negative balance.		<u>100,000</u>
Subtotal Changes in Expenditures		(1,217,673)
<u>Revenue Changes</u>		
Revenue projections changed due to several factors, including updated numbers, new estimates and historical trends.		
Property Taxes	50,000	
Sales Taxes	(266,290)	
Transient Occupancy Tax	9,029	
Electric Franchise	(50,000)	
Cable TV Franchise	50,000	
PEG Cable TV Franchise	14,750	

Department/Division/Account	Individual Amount	Total Amount
Gas Franchise	(50,000)	
Dog License	35,000	
Fire Permits	25,000	
Building Permits	304,000	
Electric Permits	9,000	
Plumbing/Mechanical Permits	(6,000)	
Street Permits	25,000	
Home Occupation Permits	(500)	
Special Business Permits	100	
Operator's Permits	2,500	
Shopping Cart Retrieval	(10,000)	
Investment Earnings	50,000	
Investment Market Value Adjustment	(50,000)	
Interest Earned - CMRA Note	(1,806)	
Building/Ground Rental	50,000	
Rental - Downtown Community Center	3,500	
Rental - Balearic Community Center	(5,000)	
Rental - Tennis Center	1,000	
Rental - Golf Course Operations	(100,000)	
Rental - Bus Shelter Ads	15,000	
Motor Vehicle In-Lieu Tax	100,000	
OCTA - SAAV	15,000	
Other County Grants	2,500	
Reimbursement from ABLE	(194,000)	
Zoning/Variance/CUP Fees	25,000	
Subdivision Map Fees	1,000	
Environmental Impact Fees	(750)	
Plan Checking Fees	90,000	
Special Policing Fees	(20,000)	
DUI/Emergency Response	(50,000)	
Jail Booking Fees	(60,000)	
Police False Alarms	(25,000)	
Fire Inspection Fees	(6,000)	
EMS - First Responder Fee	(100,000)	
Paramedic Fee - Advanced	50,000	
Fire False Alarms	10,000	
Park Permits	5,000	
Park Improvements	5,000	
Youth Sports - Basketball and Football	26,300	
Recreation - Aquatics	20,000	
Recreation - Playgrounds	114,494	
Recreation - Early Childhood	10,000	
Instructional Classes	(20,000)	
Recreation - Basketball	(16,300)	
Teen Camp	(3,400)	
Photocopies	500	
Special Assessments	10,000	
Sponsorship Naming Rights	3,000	
Other Reimbursements	100,000	
Other Revenue	250,000	
Subtotal Changes in Revenues		446,627
		<u><u>(1,664,300)</u></u>



CITY COUNCIL STUDY SESSION

AGENDA REPORT

MEETING DATE: JUNE 17, 2011

ITEM NUMBER:

SUBJECT: CEO RECOMMENDED CHANGES TO THE FY 11-12 PRELIMINARY BUDGET

DATE: JUNE 10, 2011

FROM: OFFICE OF CEO

PRESENTATION BY: THOMAS R. HATCH, CEO

FOR FURTHER INFORMATION CONTACT: THOMAS R. HATCH @ (714) 754-5328

The preliminary budget for FY 2011-2012 includes the entire budget allocations including the changes already made during the departmental budget hearings with the CEO. These changes that occurred at staff level budget hearings included expenditure and revenue changes reducing the overall budget shortfall from approximately \$5 million down to approximately \$3.3 million (\$1.7 million in changes). Again, all of these changes are already included in the budget detail presented in the preliminary budget.

On May 31, 2011, a memo was provided to the City Council, City staff and members of the community outlining key budget changes that represent additional changes of approximately \$2.4 million in savings that further help balance the budget. The prior memo included the details and justifications for these recommended changes but a summary list is as follows:

- Reduce amount charged to the General Fund for Internal Rent – Replacement Charges - \$1.9 million;
- Reduce amount allocated for a General Plan Update - \$200,000;
- Reduce Information Technology budget for Computer Aided Dispatch (CAD) server - \$283,000; and
- Reduce Recreation budget for reduction in Aquatics programming - \$39,305 & reduce revenue of approximately \$10,000.

The total of these recommended above is \$2.4 million. With the changes presented above, the CEO's recommended budget is still approximately \$900,000 short of a balanced budget.

Additional CEO Recommended Budget Changes

Eliminate the Telecommunication Manager position. As part of the reorganization plan for the Police Department and after internal discussions with several department heads, it was determined that it would be best and most efficient for our organization to relocate the management of the telecommunications (911 Dispatch) operations to the

Police Department. To best integrate this change, it was determined that a sworn Police Lieutenant position would be best suited to manage the operations. This change will result in the retention of a Lieutenant position and the elimination of the Telecommunications Manager position. The estimated annual savings from this change is \$174,356. This savings was included in the police reorganization plan.

Reduce Full-time Recreation Specialist position (Aquatics) to Part-time. As part of the FY 10-11 budget deliberations, closing the City pool during the months of October through March was proposed to reduce costs. By closing the City pool for a period time, it is recommended that the current full time Recreation Specialist position be reduced to a part time Recreation Specialist position, generating a net savings of \$29,305. This item was included in the CEO's Budget Memo dated May 31, 2011 and listed above.

As part of the process for the development of the FY 2010-2011 Budget, departments made recommend cuts at 5%, 10% and 15% levels. A few recommended reductions were considered by the City Council last year but were not implemented late in the budget discussions. Three of these recommendations are being presented again for City Council consideration. They include:

Eliminate an Animal Control Officer position. The City presently has three (3) Animal Control Officers (ACO) and is proposing to eliminate one of those positions. Last year the City Council authorized an increase in the dog licensing fees to generate additional funding to retain a third ACO position. While there is a nexus or connection between dog licensing fees and the level of service for animal control, currently only 22% of the costs for the animal control operations are covered by the dog license fees. The remaining 78% of the operations are funded by the General Fund. The General Fund is currently facing shortfalls and therefore, one of the three ACO positions is again recommended for elimination. The remaining two positions will be changed from a four day a week-ten hour per day schedule back to a traditional five day a week-eight hour per day schedule (pending the meet and confer process) to enhance service coverage. This will allow coverage with two ACO's for three of the seven days and still one ACO for the other four days of a seven day work week. The estimated annual savings from this reduction is \$98,007. Also, the City currently has 3 Animal Control vehicles. Staff recommends eliminating one of these vehicles, and thereby reducing the maintenance required and the overall size of the City's fleet.

Eliminate the Emergency Medical Services Coordinator position. The civilian Emergency Medical Services Coordinator position is responsible for administration, training and quality control for the City Emergency Medical Services through the Fire Department. The position is solely dedicated to the provision of emergency medical care services. Last year the Fire Department recommended the elimination of this position as part of the departmental reductions. The position was retained after the creation of a new fee for Medicare/Insurance reimbursement and this has helped General Fund revenues. The Interim Fire Chief will review the workload and determine the best method to distribute the work to other Department personnel and ensure the essential services continue to be completed. The estimated annual savings from this change is \$140,218.

The total savings from the elimination of these two additional full-time positions is \$238,225.

In addition, there is a need to add expenditure items to the preliminary budget. These included the following additional funding issues:

- Increase City Attorney Department budget for legal expenses. In February, staff estimated the FY 11-12 City Attorney budget for both legal and consulting expenses to be \$603,000. During budget hearing meetings in March and April, and with recent increased monthly workload and billing, staff included an additional \$100,000 for a Preliminary Budget of \$703,000. Given recent monthly billing averaging over \$100,000 per month, staff is recommending an additional \$300,000 to the City Attorney final proposed budget.
- Increase Finance Department budget for payroll audit. The City Council has requested that a payroll audit be conducted. Requests for Proposals (RFP) were sent out and three proposals have been received. A report will be specifically coming to the City Council for review and decision on whether to conduct this audit in July. In anticipation of this work, staff is recommending an additional \$37,000 to the Finance Department final proposed budget.
- Increase Finance Department budget for business license tax study and recommendations. The City Council has expressed a desire to review the City's current business license tax and review possible changes. Staff recommends an expert be hired to study and review the City's Business License Tax process and fee structure and provide recommendations to include efficiencies that can be created in processing and identifying unlicensed businesses, and propose a new structure for the City Council to consider and determine if a revised Business License Tax structure should be placed on the November 2012 ballot. The final approval of the hiring of the consultant will be considered by the City Council in the first quarter of the new fiscal year. In anticipation of this work, staff is recommending an additional \$40,000 to the Finance Department final proposed budget.
- Increase City Chief Executive Officer's (CEO) budget for economic development. The City Council has expressed interest in hiring an economic development consultant to assist the City in proactively developing the business environment and creating local jobs. Staff will prepare an RFP in the first quarter of the new fiscal year to begin the process of finding a qualified consultant. Staff recommends an additional \$100,000 to the CEO's final proposed budget.

Total cost increase for the above activities is \$477,000

FY 2011-2012 GENERAL FUND PROPOSED BUDGET SUMMARY

<u>Preliminary Estimated Revenues</u>	<u>\$ 94,578,394</u>
<u>Preliminary Budgeted Expenditures</u>	<u>(97,871,613)</u>
Preliminary Budget Deficit	(3,293,219)
<u>Initial CEO Recommended Reductions – May 31</u>	<u>2,415,841</u>
<u>Budget Gap as of May 31, 2011</u>	<u>(877,378)</u>
<u>Final CEO Recommended Reductions:</u>	
<u>Savings from Police Department Reorganization</u>	<u>1,357,725</u>
<u>Savings from PD Reorg.- Correction: One Lieutenant position omitted from cost</u>	<u>(127,845)</u>
<u>Savings from eliminated positions above</u>	<u>238,225</u>
<u>Additional cost recommended above</u>	<u>(477,000)</u>
<u>General Fund Contingency in FY 2011-2012 Budget</u>	<u>(50,000)</u>
<u>Replenishment of General Fund Reserves</u>	<u>(63,727)</u>
Total Proposed General Fund Budget Deficit	<u> \$ 0</u>

As shown, including the CEO's final recommended reductions, the City Council will be presented with a proposed balanced budget.

RESOLUTION NO. 11-____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COSTA MESA, CALIFORNIA, ADOPTING A BUDGET FOR THE FISCAL YEAR 2011-2012.

THE CITY COUNCIL OF THE CITY OF COSTA MESA DOES HEREBY RESOLVE AS FOLLOWS:

WHEREAS, the Proposed Budget for Fiscal Year 2011-2012 year has been prepared in compliance with Section 2-153 of the Costa Mesa Municipal Code.

NOW, THEREFORE, BE IT RESOLVED as follows:

SECTION 1: The annual budget for the City of Costa Mesa for the Fiscal Year beginning July 1, 2011 and ending June 30, 2012 is hereby adopted as set forth in the Proposed 2011-2012 Budget.

PASSED AND ADOPTED this 21st day of June, 2011.

Gary Monahan, Mayor

ATTEST:

APPROVED AS TO FORM:

Julie Folcik, City Clerk

Thomas Duarte, City Attorney

STATE OF CALIFORNIA)
COUNTY OF ORANGE) ss
CITY OF COSTA MESA)

I, JULIE FOLCIK, City Clerk of the City of Costa Mesa, DO HEREBY CERTIFY that the above and foregoing is the original of Resolution No. 11-____ and was duly passed and adopted by the City Council of the City of Costa Mesa at a regular meeting held on the 21st day of June, 2010, by the following roll call vote, to wit:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

IN WITNESS WHEREOF, I have hereby set my hand and affixed the seal of the City of Costa Mesa this ____th day of June, 2011.

JULIE FOLCIK, CITY CLERK

(SEAL)